



CRA Insights: Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

Recent developments in IP damages

In re Innovatio IP Ventures, LLC Patent Litigation, 1-11-cv-09308 (ILND)

On September 27, 2013, Judge James Holderman in the Northern District of Illinois issued an opinion setting a reasonable and non-discriminatory (RAND) royalty rate of \$0.0956 per Wi-Fi chip for 19 of Innovatio's patents which cover aspects of the 802.11 wireless standard. This is only the second time a court has undertaken a judicial determination of a RAND rate for standard-essential patents. The decision followed a bench trial after discovery, but before claim construction, on which the parties and Court agreed to increase the chances of settlement. Judge Holderman detailed his royalty analysis in the 89-page opinion.

Judge Holderman generally followed the methodology employed in *Microsoft Corp v. Motorola, Inc.* to determine the reasonable royalty rate.¹ This included adoption of modified *Georgia-Pacific* factors tailored to the determination of a RAND rate, along with three steps "which provide a framework for any court attempting to determine a RAND licensing rate for a given portfolio." These steps consider the importance of the patent portfolio to the standard, the importance of the patent portfolio as a whole to the alleged infringer's accused products, and other licenses for comparable patents.

Innovatio argued the smallest salable patent-practicing unit was the end-product incorporating the wireless functionality, because many of the asserted claims read on systems and methods involving apparatuses other than the Wi-Fi chip. However, the Court found that Innovatio's approach did not credibly apportion the value of the end-products down to the patented features, and thus the Court had no choice but to calculate a royalty based on the selling price of the Wi-Fi chip.

The Court considered the value of the patented technologies only against others considered by the Institute of Electrical and Electronics Engineers (IEEE) committee when setting the 802.11 standard, and determined that the asserted patents were of moderate to high value to the standard. Finding the comparable license agreements presented by both parties insufficient to determine an appropriate rate,

¹ *Microsoft Corp v. Motorola, Inc.* No. C10-1823, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013) (Robart, J).

the Court adopted the “Top Down” approach presented by the defendants’ expert, “with appropriate modifications.” This approach allocated a portion of the Wi-Fi chip manufacturer’s estimated profits to the 19 patents-in-suit, based on their relative value to the 802.11 standard. The Court explained this methodology, while not perfect, has the advantage of accounting for the RAND principles’ non-discrimination and royalty stacking (i.e., it is appropriate to consider the profit of the manufacturer on the chip, rather than the profit margins of the manufacturers on the end-products, because a RAND licensor cannot discriminate between licensees based on their position in the market). The Court also noted this approach allows for the apportionment of value to the patented features of the accused products without relying on information about other licenses that may or may not be comparable.

***AstraZeneca AB, et al. v. Apotex Corporation, et al.*, 1-01-cv-09351 (NYSD)**

On November 26, 2013, Judge Denise Cote in the Southern District of New York awarded AstraZeneca (Astra) damages totaling \$76.0 million, based on a royalty of 50% of Apotex’s gross profits from its infringing sales of omeprazole (brand name Prilosec®), a drug used for treating conditions caused by excess stomach acid. This case was the last of a series of patent infringement actions in the Southern District of New York regarding omeprazole. The patent on the omeprazole molecule expired in 2001, and Apotex launched its product at the risk of infringing an Astra patent covering the formulation of the drug. In 2007, the Court found Apotex infringed the Astra patent.²

Apotex argued that under the entire market value rule (EMVR) it was improper to base a royalty on the value of the omeprazole capsules as a finished product, rather than on the isolated value of the inert subcoating found to infringe Astra’s patents, and that the value of the patented subcoating was minimal. Regarding the EMVR, the Court determined that “there is little reason to import these rules for multi-component products like machines into the generic pharmaceutical context.” Even under the EMVR, the Court disagreed with Apotex’s arguments, finding that “while the subcoating did not of course create customer demand for omeprazole, it did ‘substantially create [] the value’ of the drug as it was formulated by Apotex.”³ The Court also disagreed with Apotex’s assertion that the patented subcoating had no noticeable benefit, finding that it was a crucial aspect of the process embodied by the patent-at-issue, and that Astra’s prior formulations, which lacked a subcoat, were not commercially viable.

The Court rejected Apotex’s argument that considering the cost and delay associated with developing a non-infringing alternative, starting from the time of the hypothetical negotiation, would overcompensate the patentee. Apotex argued that in the “hypothetical world” it would have begun developing a non-infringing formulation at the time it submitted its Abbreviated New Drug Application (ANDA), three years before the hypothetical negotiation. However, the Court found that Apotex’s argument contradicted settled law, and that “[t]he hypothetical negotiation is hypothetical in the sense that the negotiation itself is imaginary, not in that it allows the parties to construct an entirely imaginary world that ignores the facts as they existed at the date of the infringement. Those facts show that Apotex did not have a non-infringing alternative formulation ready and waiting. That this was the situation in which Apotex found itself in November 2003 is one of the most salient features of the negotiating dynamic in this case and may not now be ignored.”

Given Apotex’s actual and projected profit margins on the infringing sales, the cost to delay entry and lack of available non-infringing alternatives, the likely impact of another generic entrant into the omeprazole market, and several comparable license agreements, the Court determined that the

² *In re Omeprazole Patent Litig.*, 490 F. Supp. 2d 381, 390 (S.D.N.Y. 2007).

³ Citing *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011).

hypothetical licensing fee to which Astra and Apotex agreed would have been at least 50% of Apotex's gross margin from its sales of omeprazole.

Apple, Inc. v. Samsung Electronics Co., Ltd., et al., 11-cv-01846 (CAND)

On November 21, 2013, a jury in the Northern District of California awarded Apple \$290.5 million in a retrial on damages related to certain Samsung products found by a previous jury to infringe Apple's design and utility patents. In August 2012, a jury awarded Apple damages totaling \$1.05 billion on 28 accused products, but after the trial Judge Lucy Koh ruled that the jury had erred by awarding damages on 14 of those products based on damages theories that were not appropriate given the jury's infringement determinations. The new verdict reduced Apple's total damages award to \$889.4 million.

At the retrial, Apple sought damages of \$379.8 million for the 14 products, comprised of \$113.8 million in lost profits for infringement of one of Apple's utility patents, \$231.4 million in Samsung's profits for infringement of Apple's design patents for which lost profits were not sought, and \$34.6 million in reasonable royalty damages for sales not otherwise eligible for lost profits or infringer's profits. Samsung disputed Apple's entitlement to lost profits, its failure to allocate operating expenses in computing Samsung's profits, and the appropriate reasonable royalty rate(s). Accordingly, Samsung's expert claimed the appropriate damages amount was \$52.7 million in Samsung's profits, plus \$28,452 in reasonable royalties. The original jury's award totaled \$450.5 million for the products at issue.

Samsung claims the retrial jury's award of \$290.5 million was based on 100% of Apple's claimed lost profits and reasonable royalties for products only found to infringe utility patents, and 100% of Apple's claimed lost profits and reasonable royalties plus Samsung's profits (calculated by the jury as the halfway point between the amount presented by Apple's and Samsung's experts, which were based on gross profits and operating profits, respectively) for products found to infringe both utility patents and design patents. Samsung has moved for judgment as a matter of law, a new trial, and/or remittitur. A hearing is scheduled for January 30, 2014 to address issues with the jury's damages calculation, along with Apple's request for a permanent injunction.

One of Apple's utility patents at issue in the retrial is in re-examination proceedings before the United States Patent and Trademark Office (USPTO). In July 2013, Apple received a final office action from the agency cancelling all claims of the '915 patent, the only patent for which Apple claimed and was awarded lost profits in the retrial. Samsung claimed invalidation of the '915 patent will potentially require vacatur of the damages awards as to all products at issue but one. Apple filed an appeal of the USPTO's decision on December 26, 2013. Its appeal brief is due February 26, 2014.

Apple and Samsung are scheduled to go to trial again in the Northern District of California in March 2014 in another case involving infringement claims for additional patents asserted by both parties against one another.⁴ The parties have agreed to a mediation on or before February 19, 2014.

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⁴ *Apple, Inc. v. Samsung Electronics Co., LTD, et al., 12-cv-0630 (CAND).*

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